

SEC. 1906. MODIFICATION OF RULES RELATING TO
FOREIGN TRUSTS

WHICH ARE NOT GRANTOR TRUSTS.

(a) MODIFICATION OF INTEREST CHARGE ON
ACCUMULATION DISTRIBUTIONS.—Subsection (a) of section 668 (relating
to interest
charge on accumulation distributions from foreign
trusts) is
amended to read as follows:

"(a) GENERAL RULE.—For purposes of the tax
determined under
section 667(a) —

"(1) INTEREST DETERMINED USING UNDERPAYMENT
RATES.—

The interest charge determined under this
section with respect
to any distribution is the amount of interest
which would
be determined on the partial tax computed under
section 667(b)
for the period described in paragraph (2) using
the rates and
the method under section 6621 applicable to
underpayments
of tax.

"(2) PERIOD.—For purposes of paragraph (1),
the period
described in this paragraph is the period
which begins on
the date which is the applicable number of years
before the
date of the distribution and which ends on the
date of the
distribution.

"(3) APPLICABLE NUMBER OF YEARS.—For purposes
of para-
graph (2) —

"(A) IN GENERAL.—The applicable number
of years
with respect to a distribution is the number
determined
by dividing —

"(i) the sum of the products described in
subpara-
graph (B) with respect to each
undistributed income
year by

"(ii) the aggregate undistributed net
income.

The quotient determined under the
preceding sentence
shall be rounded under procedures prescribed
by the Sec-
retary.

"(B) PRODUCT DESCRIBED.—For purposes of
sub-
paragraph (A), the product described in this
subparagraph
with respect to any undistributed income year
is the prod-
uct of—

"(i) the undistributed net income for
such year,
and

"(ii) the sum of the number of taxable
years
between such year and the taxable year of
the distribu-
tion (counting in each case the

undistributed income
year but not counting the taxable year of
the distribution).

"(4) **UNDISTRIBUTED INCOME YEAR.**—For purposes
of this
subsection, the term **undistributed income year**
means any
prior taxable year of the trust for which there is
undistributed
net income, other than a taxable year during
all of which
the beneficiary receiving the distribution was
not a citizen
or resident of the United States.

"(5) **DETERMINATION OF UNDISTRIBUTED NET
INCOME.**—Not-
withstanding section 666, for purposes of this
subsection, an
accumulation distribution from the trust shall be
treated as
reducing proportionately the undistributed net
income for
undistributed income years.

"(6) **PERIODS BEFORE 1996.**—Interest for the
portion of the
period described in paragraph (2) which occurs
before January
1, 1996, shall be determined—